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COMMITTEE ON GOVERNMENT REFORM – MINORITY STAFF
SPECIAL INVESTIGATIONS DIVISION
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**MEDICARE DRUG CARDS PROVIDE FEW DISCOUNTS IN
OREGON’S 4TH CONGRESSIONAL DISTRICT**

PREPARED FOR REP. PETER A. DEFazio

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EXECUTIVE SUMMARY

Medicare prescription drug cards became available to the public on June 1, 2004. According to the Bush Administration, these drug cards will provide seniors across America with significant discounts on prescription drugs.

At the request of Rep. Peter A. DeFazio, this report analyzes the price savings that the Medicare drug cards offer seniors in the 4th Congressional District of Oregon, which Rep. DeFazio represents. There are 32 drug cards available to seniors in Rep. DeFazio's district. The report examines the prices each of the cards charge for the ten most popular brand-name drugs used by seniors.

The report finds that the drug cards are failing to provide significant discounts for seniors in Rep. DeFazio's district. With the exception of some low-income seniors, who receive a \$600 subsidy to help pay for drugs when they sign up for the cards, most seniors will see few, if any, benefits. Specifically, the report finds:

- **Prices available through the Medicare drug cards in Rep. DeFazio's district are significantly higher than prices for the same drugs in Canada.** For the top ten drugs for seniors, the average prices offered by the Medicare prescription drug cards were 58% higher than Canadian prices. A 30-day supply of the arthritis drug Celebrex costs only \$38.69 in Canada, compared to \$77.30 or more with the Medicare drug cards.
- **Prices available through the Medicare drug cards in Rep. DeFazio's district are significantly higher than prices negotiated by the federal government for the same drugs.** The federal government purchases drugs for the VA and other federal agencies through the Federal Supply Schedule. For the top ten drugs for seniors, the average prices offered by the Medicare prescription drug cards were 61% higher than the prices negotiated by the federal government. A 30-day supply of the ulcer medication Protonix costs the federal government only \$44.31, compared to \$84.89 or more with the Medicare drug cards.
- **Prices available through the Medicare drug cards in Rep. DeFazio's district are comparable to other prices currently available to Medicare beneficiaries.** For the top ten drugs for seniors, the average prices offered by the Medicare prescription drug cards were virtually identical to the prices charged by Drugstore.com. Even with the drug card that offers the lowest overall prices, prices for four of the top ten drugs for seniors are either equal to or higher than Drugstore.com prices.

BACKGROUND

The Bush Administration launched the Medicare drug discount cards on April 29, 2004. The Center for Medicare and Medicaid Services (CMS) indicated that the cards would provide “significant price reductions off typical retail prices,” while HHS Secretary Thompson predicted average savings of 17% to 30%.¹ President Bush claimed that “this discount card is going to save our seniors a lot of money.”²

Early analyses of the card prices found that they actually provided few discounts for seniors. An analysis by the minority staff of the House Committee on Government Reform showed that the discounts provided by the cards were significantly smaller than the discounts available in Canada or negotiated by the federal government through the VA Federal Supply Schedule. This analysis also found that drug prices already available to seniors on Drugstore.com were similar to the discount card prices.³ Other analyses reached similar conclusions.⁴

In response to these findings, HHS Secretary Tommy Thompson and CMS Administrator Mark McClellan said that they expected drug card prices to drop throughout the month of May, before the cards became active on June 1. Secretary Thompson expressed confidence that “[s]eniors will be able to reap the benefits of competition in terms of lower prices,”⁵ and Dr. McClellan predicted “downward changes over the next couple of weeks.”⁶ Again, however, a national analysis found that the drug prices available through the cards remained high.⁷

The purpose of this report is to assess whether seniors at the local level can obtain significant price discounts using the Medicare drug cards. At the request of Rep.

¹ *Medicare Posts Web-Based Drug Price Comparisons for New Discount Cards*, Associated Press (Apr. 29, 2004).

² *Bush Admits Drug Card Concerns; President Defends Medicare Discounts Despite Patients' Qualms*, Washington Post (June 15, 2004).

³ House Committee on Government Reform, Minority Staff, *New Medicare Drug Cards Offer Few Discounts* (Apr. 29, 2004).

⁴ *Web Still Helps the Medicine Go Down; Sites Undercut Some Discounts for New Medicare Drug Cards*, Washington Post (Apr. 30, 2004).

⁵ Center for Medicare and Medicaid Services, *Medicare Drug Discount Cards Continue to Drop Prices and Offer Better Savings* (May 14, 2004).

⁶ *Officials Recommend Seniors Wait before Choosing Medicare Drug Card*, USA Today (Apr. 29, 2004).

⁷ House Committee on Government Reform, Minority Staff, *Medicare Drug Card Prices Remain High* (June 2004).

DeFazio, this report evaluates the impact of the Medicare drug cards in the 4th Congressional District of Oregon, which Rep. DeFazio represents. The 4th Congressional District is located in southwest Oregon and includes all or part of the communities of Eugene, Springfield, Albany, Corvallis, Roseburg, and Coos Bay.

METHODOLOGY

There are 32 Medicare-approved drug discount cards available to seniors in the 4th Congressional District.⁸ To assess the discounts available through these cards, the report compares the prices offered by these drug cards to three other sets of prices. First, it compares the drug card prices to those that individuals would pay for the same drugs in Canada. Second, it compares the prices to those listed by the federal government on the Federal Supply Schedule (FSS). The FSS prices are negotiated by the Department of Veterans Affairs and are available to federal government agencies, including the VA, DOD, and the Coast Guard. The FSS prices are indicative of the prices available when an aggressive negotiator, such as the federal government or a private insurance company, is negotiating on behalf of payers.⁹ Finally, the report compares the prices available with the new Medicare drug cards to those currently available through Drugstore.com, an internet pharmacy offering discount prices.

The drugs analyzed in the report are a 30-day supply of each of the ten brand-name drugs with the highest dollar sales to seniors.¹⁰ The ten drugs are:

⁸ These cards are the AARP Prescription Discount Card, the aClaim RxSavings Club, the Aetna RxSavings Card, the American Advantage-Med Card, the American Prescription Plan Card, the ArgusRx card, the Argus Rx Card, the BD Advantage Drug Discount Card, the Community Care Rx Card, the Criterion Advantage Card, the Envision Rx Plus Card, the InStil Health Solutions Card, the Liberty Prescription Discount Card, the Medicare USA Card, the MyPharmacare Card, the PBM Plus Senior Care Card, the Pharmacy Care Alliance Card (Options A and B), the Prescription Discounts Card (Option A), the Preferred Prescription Discount Card, the Prescription Discount Card, the Public Sector Partners Prescription Drug Discount Card, the RxSavings Access Card, the RxSavings Card (as well as two variations of the RxSavings card, one distributed by Readers Digest and one distributed by the Mennonite Mutual Aid Association), the Scrip Solutions Choice Card, the Scrip Solutions Freedom Card, the ScriptSave Premier Card, the SXC Health Solutions Card, the Pharmacy Smart Card, the U Share Prescription Drug Discount Card, and the Walgreens Health Initiative Prescription Discount Card.

⁹ According to the U.S. General Accounting Office, "under GSA procurement regulations, VA contract officers are required to seek an FSS price that represents the same discount off a drug's list price that the manufacturer offers its most-favored nonfederal customer under comparable terms and conditions." U.S. General Accounting Office, *Drug Prices: Effects of Opening Federal Supply Schedule for Pharmaceuticals Are Uncertain*, 6 (June 1997) (emphasis added).

¹⁰ Pennsylvania Department of Aging, PACE Program, *2003 High Cost and High Volume Claims* (Feb. 2004).

- Aricept, an Alzheimer's medication manufactured by Pfizer;
- Celebrex, an arthritis medication manufactured by Pfizer;
- Fosamax, an osteoporosis medication manufactured by Merck;
- Lipitor, a blood pressure medication manufactured by Pfizer;
- Nexium, an acid reflux medication manufactured by AstraZeneca;
- Norvasc, a blood pressure medication manufactured by Pfizer;
- Plavix, a heart medication manufactured by Bristol-Meyers Squibb;
- Prevacid, an acid reflux medication manufactured by TAP Pharmaceuticals;
- Protonix, an acid reflux medication manufactured by Wyeth-Ayerst; and
- Zocor, a blood pressure medication manufactured by Merck.¹¹

Prices available through the drug cards were obtained on July 12, 2004. Prices on the Medicare.gov website are updated on a weekly basis. Although prices could change between the date that prices were downloaded and the date of release of this report, there are unlikely to be significant price declines.¹²

FINDINGS

A. Comparison of Drug Card Prices in Rep. DeFazio's District to Prices in Canada

The prices available to seniors in Rep. DeFazio's district through the new prescription drug cards are significantly higher than prices paid by consumers in Canada. There are 32 drug cards available in the 4th Congressional District. Using the cards, the average cost for a 30-day supply of each of the ten drugs is \$942.88. In Canada, the ten drugs would cost a total of \$596. The average drug card price is 58% higher than the Canadian price.

Of the 32 cards available in the 4th Congressional District, the card with the highest prices is the Pharmacy SmartCard. The price for a 30-day supply of each of the ten drugs using this card is \$1,036.61. This is 74% higher than the Canadian prices.

Even the card with the lowest prices, the Walgreens Health Initiatives card, has prices that are significantly higher than Canadian prices. With this card, the price for a 30-day supply of each of the ten drugs ranges from \$878.77 to \$915.77,

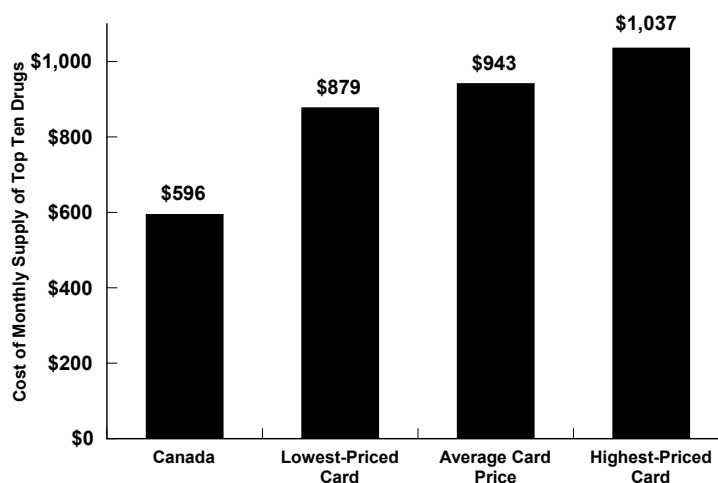
¹¹ The dosage and quantity of each drug used were: Aricept, 10 mg, 30 cap; Celebrex, 200 mg, 30 tab; Fosamax, 70 mg, 4 tab; Lipitor, 10 mg, 30 tab; Nexium, 20 mg, 30 tab; Norvasc, 5 mg, 30 tab; Plavix, 75 mg, 30 tab; Prevacid, 30 mg, 30 tab; Protonix, 40 mg, 30 tab; Zocor, 40 mg, 30 tab.

¹² House Committee on Government Reform, *supra* note 7.

depending upon the pharmacy.¹³ These prices are 48% to 54% higher than the Canadian prices. Figure 1.

The prices available through the drug cards for individual drugs can easily be twice as high as Canadian prices. For example, a 30-day supply of Celebrex, the arthritis drug, would cost at least \$77.30 with the Walgreens Health Initiatives card, compared to only \$38.69 in Canada, a price difference of 100%. With other cards, the 30-day supply of Celebrex can cost up to \$88.72, a price difference of 129%. A 30-day supply of Prevacid, the ulcer medication, would cost at least \$109.87 with the Walgreens Health Initiatives card, but only \$56.54 in Canada, a price difference of 94%. With other cards, a 30-day supply of Prevacid could cost up to \$131.43, a price difference of 132%.

Figure 1: Prices with Medicare Drug Cards Available in Oregon’s 4th Congressional District Are Significantly Higher than Canadian Prices



B. Comparison of Drug Card Prices in Rep. DeFazio’s District to Prices Paid by the Federal Government

The prices available to seniors in Rep. DeFazio’s district through the drug cards are also significantly higher than the prices available to the VA and other federal agencies through the Federal Supply Schedule (FSS). A 30-day supply of the ten drugs can be purchased through the VA Federal Supply Schedule for only \$587, compared to an average cost of \$942.88 with the drug cards. This means that the

¹³ The lower prices are available only at select pharmacies in the district.

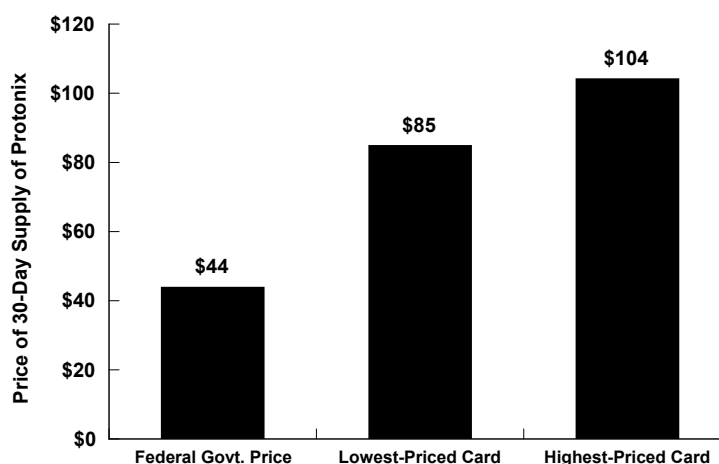
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average price that seniors in the 4th Congressional District pay with the Medicare discount cards is 61% higher than the FSS prices.

Prices for Medicare beneficiaries with the highest-priced card, the Pharmacy SmartCard, are 77% higher than VA Federal Supply Schedule prices. And even with the lowest-priced card, the Walgreens Health Initiatives card, the drug card prices are 50% to 56% higher than FSS prices. Figure 2.

In the case of individual drugs, the prices charged by the Medicare drug cards can be twice as high as the VA Federal Supply Schedule prices. For example, a 30-day supply of Protonix, an ulcer medication, costs only \$44.31 under the VA Federal Supply Schedule compared to \$84.89 with the Walgreens Health Initiatives card. With other cards, this drug can cost as much as \$104.33.

Figure 2: Prices Offered by Medicare Drug Cards Available in Oregon's 4th Congressional District Are Higher than Prices Paid by the Federal Government



C. Comparison of Drug Card Prices in Rep. DeFazio's District to Prices Otherwise Available to Medicare Beneficiaries

For the 32 drug cards available in the 4th Congressional District, the average price for a 30-day supply of the top ten drugs for seniors is \$942.88, not including annual fees, which generally range from \$20 to \$30. The same selection of a 30-day supply of each of the drugs costs \$958.90 at Drugstore.com, with no annual fees.

In some cases, the prices available with the Medicare drug cards are considerably higher than the prices available from Drugstore.com. The Medicare drug card with the highest reported prices in the 4th Congressional District is the Pharmacy

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SmartCard. With this card, a 30-day supply of each of the ten highest-selling drugs for seniors costs \$1,036.61 — \$75 more than the Drugstore.com price for the drugs.

Even among drug cards that offer the lowest prices, the prices can still exceed the Drugstore.com prices available to seniors. The Walgreens Health Initiatives card offers the lowest prices, as low as \$878.77 for a 30-day supply of the ten drugs. But for four of the top ten drugs for seniors, the Drugstore.com price is lower than the Walgreens Health Initiatives card price. For example, a 30-day supply of the Alzheimer's drug Aricept costs at least \$133.81, and as much as \$137.86 with the Walgreens Health Initiatives's card, compared to only \$129.99 at Drugstore.com.

Low-income Medicare beneficiaries, those with incomes below \$12,569 (\$16,862 for couples), receive a \$600 credit towards the purchase of prescription drugs when they sign up for Medicare discount cards. For these individuals, savings are likely to be significant compared to Drugstore.com prices. However, only an estimated one in six Medicare beneficiaries meets the income threshold to qualify for this credit.

The least expensive drug cards can also offer modest savings if their mail order option, which requires the purchase of a 90-day supply of drugs, is used. For example, the price of a 90-day supply of the drugs using the Walgreens Health Initiatives card is approximately 10% lower than the cost of the drugs from Drugstore.com. However, because purchasing a 90-day supply of even a single drug can require paying hundreds of dollars at once, seniors who are struggling to pay for drugs on a daily basis are often unable to purchase them in these large quantities.

CONCLUSION

This analysis compares prices available with Medicare drug cards in Oregon's 4th Congressional District to other discounted drug prices. It finds that the prices offered by the cards are far higher than discounted prices available in Canada or negotiated by the federal government, and little better than prices already available to seniors through Drugstore.com. The new Medicare discount drug cards appear to offer few, if any, advantages for most seniors in the 4th Congressional District.